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Polish Weekly Review

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Comment on the upcoming data and forecasts

The following week will be a light one for Polish markets and the economy due public holidays on May 1st and May 3rd. Nevertheless, there are two macro releases scheduled for the week. Flash CPI is bound to show another large increase in annual inflation, this time from 1.7 to ca. 2.0%. It will be driven mainly by higher fuel prices (by ca. 6% m/m) and a sustained uptrend in food prices. This is not the end of CPI increases in Poland. Manufacturing PMI is likely to show poor, albeit stable sentiment in the Polish industry. The mixed behavior of German business tendency indicators and of other Polish surveys both attest to that.

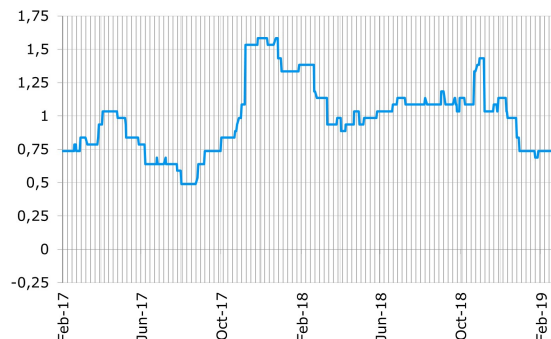
Polish data to watch: April 26th to May 10th

Publication	Date	Period	mBank	Consensus	Prior
Flash CPI y/y (%)	30.04	Apr	2.0		2.0
Manufacturing PMI (pts.)	02.05	Apr	49.0		48.7

Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Yield on the prev auction (%)	Prev auction
T-bill	-	700	1.500	2/22/2017
2Y T-bond OK0521	5/13/2019	1000	1.598	4/25/2019
5Y T-bond PS0424	5/13/2019	1800	2.224	4/25/2019
10Y T-bond DS1029	5/13/2019	1000	2.890	4/25/2019
30Y T-bond WS0447	5/13/2019	60	3.180	4/25/2019
5Y floater WZ0524	5/13/2019	1000	-	4/25/2019
10Y floater WZ0528	5/13/2019	1000	-	4/25/2019

Reality vs analysts' expectations (surprise index* for Poland)



Comment

Unchanged (no major surprises). There are only two relevant macro publications scheduled for the upcoming two weeks: flash CPI and the PMI. Both could move the index.

* Surprise index presents in a synthetic way how the market was surprised by macroeconomic releases (it is constructed on daily basis as weighted average of differences between selected releases and Bloomberg forecast consensus).

Our view in a nutshell

Fundamentals

- Polish economy continues to show great resilience to global slowdown and Polish consumers seem unfazed by pretty much anything. We are forecasting 2019 growth at 4.5% y/y and 2020 growth at 4.0% y/y. Recent data proved our earlier revisions to be prescient.
- Core inflation is projected to rise steadily. Meat prices (ASF in China; abruptly increased demand for pork), along with considerable increases in fuel prices (May, June) are set to push inflation beyond NBP target already in 2019.
- The MPC is now talking about holding rates steady until 2021 (the end of most members' term) and – given the overall environment (both global and local factors) – we concur. We don't expect any rate changes in Poland in the foreseeable future, although the rise in inflation may generate some noise from MPC members.
- Increased government transfers and lower taxes presented in February found new sources of financing (revamp of the pension system) and only moderate GG deficits along with falling debt/GDP ratio are secured. Fiscal story returned to positive path in an unambiguous way.

Financial markets

- The PLN proved to be exceptionally resilient in recent months: neither the increase in global rates, nor their subsequent decline and violent repricing of monetary policy expectations managed to break it out of the narrow, 2.5% range vis-a-vis the euro.
- Fiscal stimulation is both a blessing and a curse for the PLN. Over the short term, fiscal stimulus and expectations of a monetary offset should be PLN-positive. New wave of forecast revisions and dovish central banks globally also support PLN strength. However, if no monetary offset arrives and the economy begins to overheat, weaker currency is the only rebalancing mechanism left. For this scenario to play out we need to see inflation. Lots of inflation. With CPI much below 2.5% (for now) the story appeals on to speculative minds.

mBank forecasts

	2015	2016	2017	2018	2019 F	2020 F
GDP y/y (%)	3.8	3.0	4.8	5.1	4.5	4.0
CPI Inflation y/y (average %)	-0.9	-0.6	2.0	1.6	2.1	2.5
General government balance (%GDP)	-2.7	-2.2	-1.4	-0.2	-0.7	-1.1
Current account (%GDP)	-0.6	-0.5	0.2	-0.6	-1.2	-1.4
Unemployment rate (end of period %)	9.8	8.2	6.6	5.9	5.5	4.9
Repo rate (end of period %)	1.5	1.5	1.5	1.5	1.5	1.5

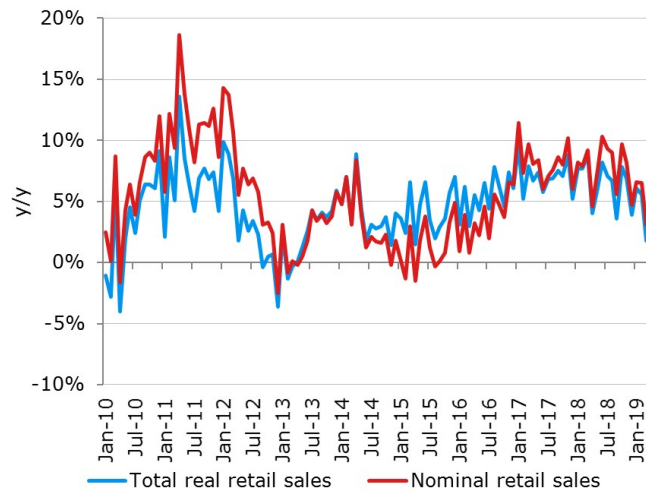
	2018	2018	2018	2018	2019	2019	2019	2019
	Q1	Q2	Q3	Q4	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	5.2	5.3	5.2	4.9	4.6	4.5	4.5	4.4
Individual consumption y/y (%)	4.6	4.8	4.4	4.2	4.2	4.1	4.5	4.9
Public Consumption y/y (%)	4.5	4.5	5.2	4.7	4.4	4.2	4.0	4.0
Investment y/y (%)	9.6	6.0	11.3	8.2	5.0	5.0	4.0	3.0
Inflation rate (% average)	1.5	1.7	1.9	1.4	1.2	2.0	2.4	2.8
Unemployment rate (% eop)	6.6	5.9	5.7	5.9	5.9	5.4	5.3	5.5
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Wibor 3M (% eop)	1.70	1.70	1.72	1.72	1.72	1.72	1.72	1.72
2Y Polish bond yields (% eop)	1.49	1.63	1.56	1.35	1.69	1.33	1.35	1.37
10Y Polish bond yields (% eop)	3.18	3.22	3.24	2.83	2.84	2.85	2.96	3.12
EUR/PLN (eop)	4.21	4.37	4.28	4.29	4.30	4.30	4.25	4.25
USD/PLN (eop)	3.42	3.74	3.69	3.74	3.84	3.77	3.70	3.66

F - forecast

Economics

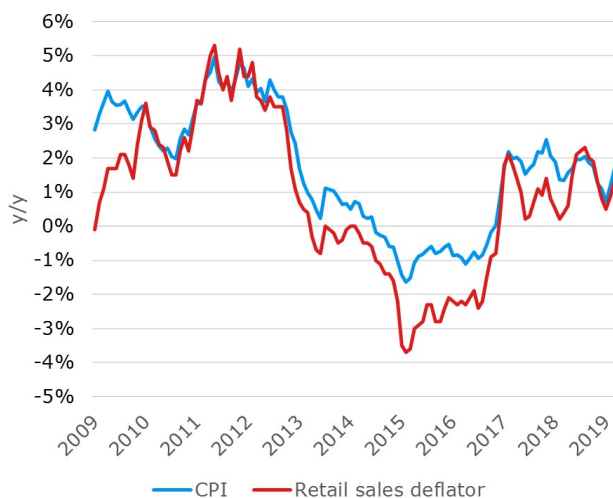
Retail sales surprises to the downside, but only because of Easter and working days.

Retail sales grew in March by 3.1% y/y (nominal terms) and 1.8% y/y (real terms). The reading was a downside surprise for the market consensus (ca. 3%) but not for us. The magnitude of the deceleration was overstated by the difference in working days and, primarily, by the Easter effect (late Easter is pushing March sales downwards), which is always hard to predict precisely. We were lucky this time.



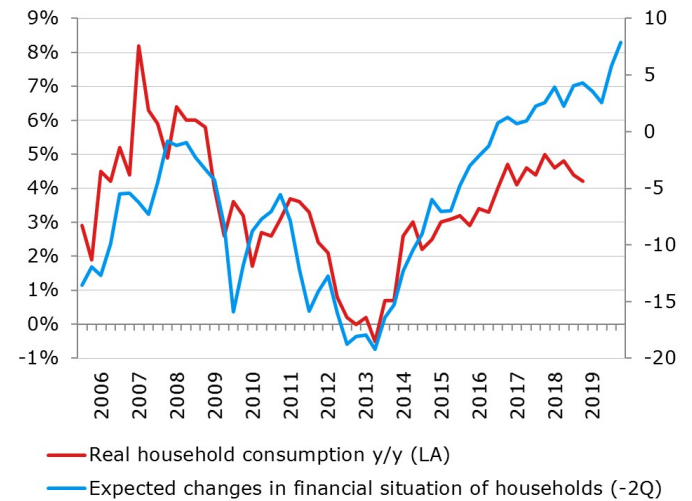
The composition of growth reveals that it is truly the Easter effect. Food sales and non-specialized store sales growth both dived by 10 p.p. – a sharp turnaround is expected in April. We see some rebound in auto sales (7.5% y/y in nominal terms), but is primarily driven by a favorable base effect. Other categories followed the models with rare precision.

Retail sales deflator accelerated along with CPI. Due to expected growth of fuel prices in April and May, retail sales deflator may rise disproportionately more than CPI inflation as the weight of fuels in goods basket is larger than in the whole spectrum of consumption goods and services.



We expect retail sales to rebound in April. However, the downward trend is clearly visible. We expect it to be arrested (at least temporarily) by additional fiscal transfers. Therefore retail sales

and consumption growth would be rather horizontal in the whole year with local maxima in growth rates at the turn of 2019 and 2020. This is foreshadowed by consumer sentiment riding sky-high in recent months. Leading indicators for household consumption continue to point upward.



Fixed income

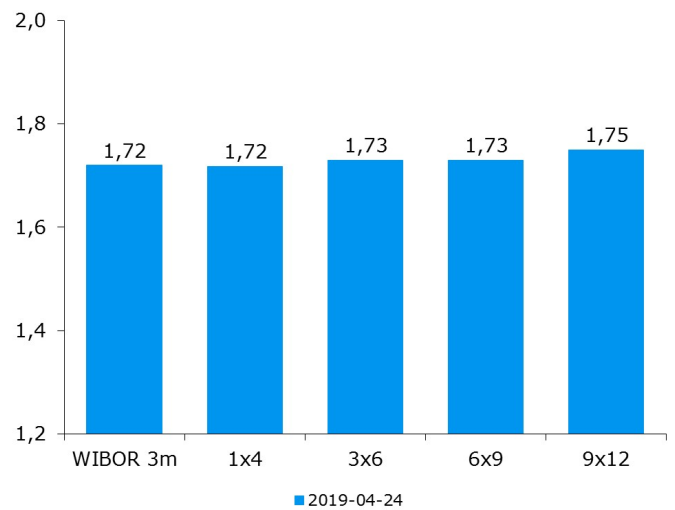
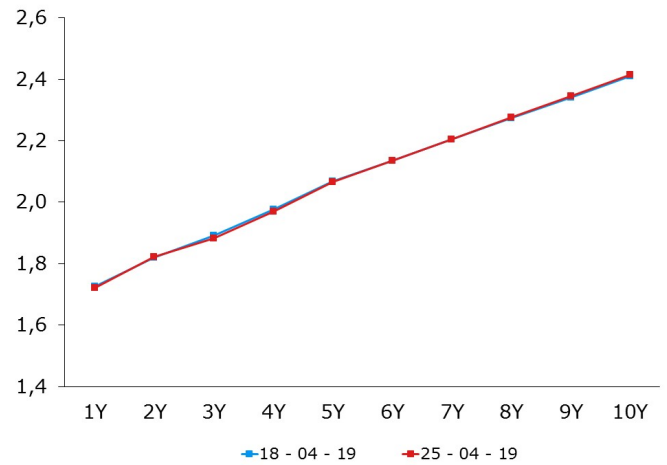
A short and quiet week

This week is short and very quiet. Even though we saw core rates moving lower, POLGBS were under auction-related pressure. As a consequence, Bund/WS0428 spread widened significantly. ASWs tightened, but they remain wide, especially on the long end. FRNs are wide as well, e.g. WZ0524 trades at WIBOR + 16.5 bps.

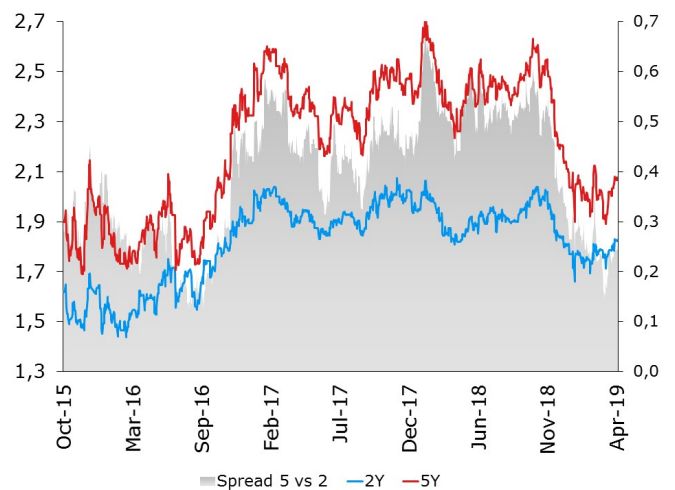
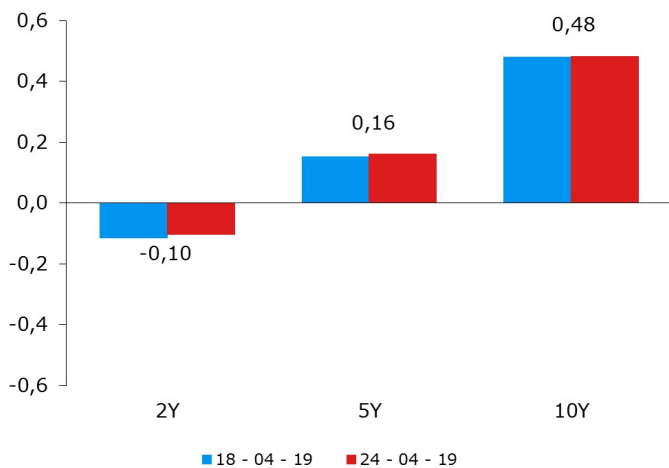
PS0424/5y is 13 bps, WS0428/10y is 36 bps. PS0424/WS0428 is 58 bps. WS0428/Bund is 280 bps.

DS1020 is trading at 1.49% (1 bps down), PS0424 is trading at 2.23% (2 bps up) and WS0428 is trading at 2.81% (2 bps down).

IRS curve



Asset swaps



Money market

Fear and loathing in the swap market

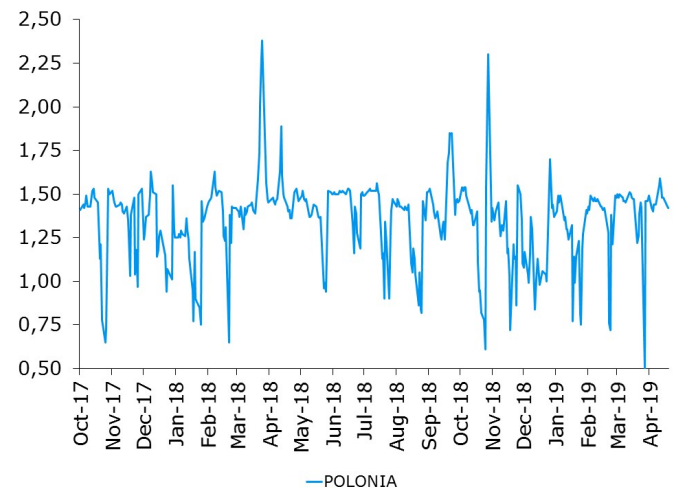
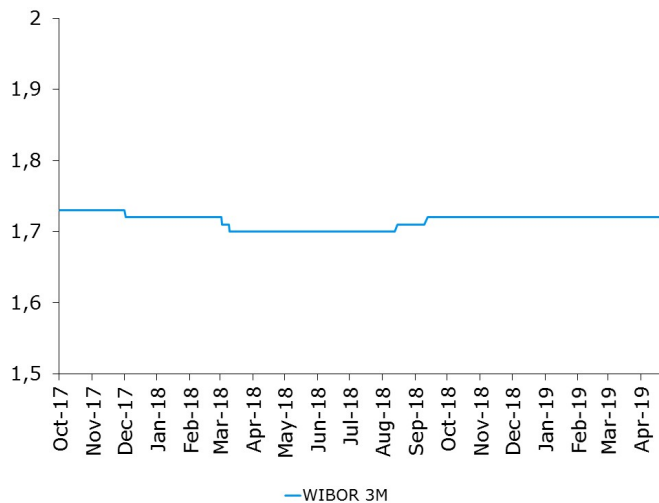
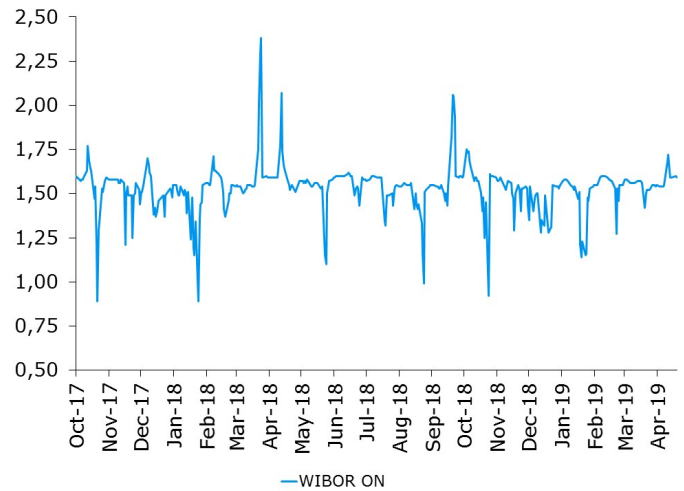
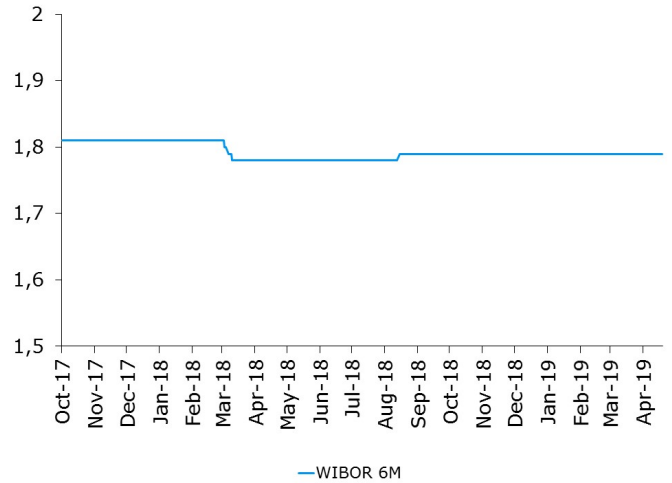
For the past few days the swap market has seemed pretty well bid. We are grinding higher every day despite the falling core yields. That, combined with stable bonds works well for ASW holders again. Next week we have the flash CPI and the market expects a pickup to 2.0% y/y. High oil and pork prices support the view for higher reading, also fear of drought damaging future crops adds to that.

Cash rates stable last week. Next week we have the last day of the reserve period which should bring cash cheaper.

Ref rate vs Polonia averages:

30 day 10 bp

90 day 16 bp



Forex

Spot – EUR/PLN – in the range. The EUR/PLN range play continues with 4.2990 constituting the high, and 4.2750 the low at last 5 working sessions. It is much more interesting on USD/PLN. EURUSD dropped sharply lower, kicking off USD/PLN above 3.86. We are following the global "risk on - risk off" mood and choppy trade on EUR/USD. Recently it was driven mainly by a surprise drop in a leading indicator for economic activity in Germany, highlighting the divergence between economic data in the United States and the euro area. Anyway, on EUR/PLN we are still in 4.26-4.34 range and we don't expect it to break out that range any time soon.

Opts: Implied volatility stable. Realized volatility is still on the move down but the implied volatility seems to find it's equilibrium at current levels as curve has not changed much from last week. 1 month EUR/PLN atm is today at 3.4% (unchanged from last week), 3 months is at 3.65% (unchanged), 1 year is at 4.55% (unchanged). The currency spread (difference between USD/PLN and EUR/PLN) increased by 0.5%, following higher EUR/USD volatility.

Short-term forecasts

Main supports / resistances:

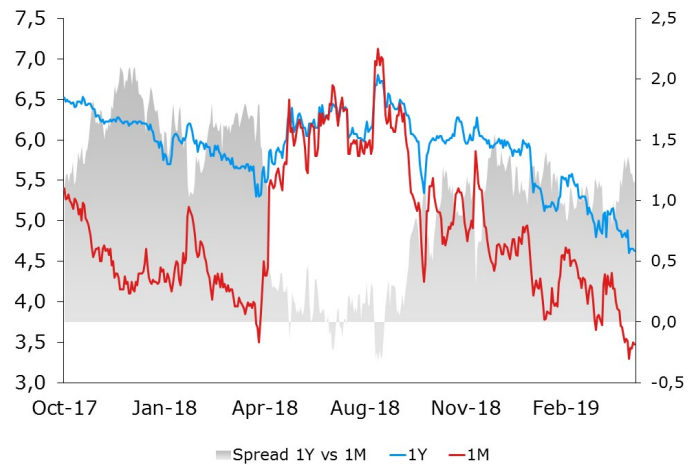
EUR/PLN: 4.2600 / 4.3400

USD/PLN: 3.6000 / 3.9000

Spot – Buy on dips

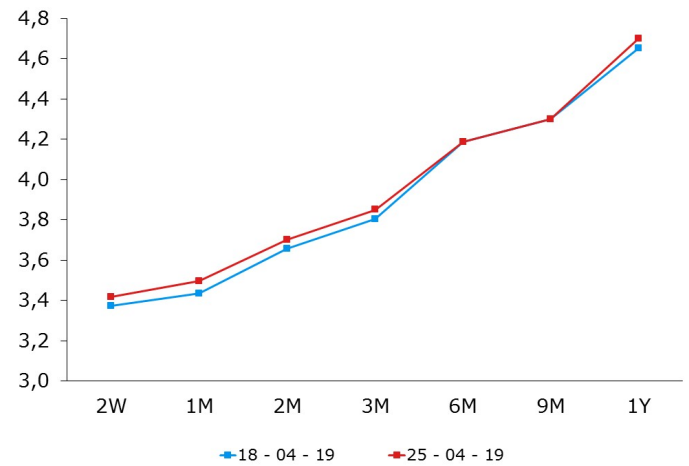
Our strategy is roughly unchanged, we still believe in rangy nature of EUR/PLN, with a slight PLN negative bias. So we are ready to buy EUR/PLN at 4.27 with stop at 4.24 and hopes to see again 4.34 / 4.35.

EURPLN volatility

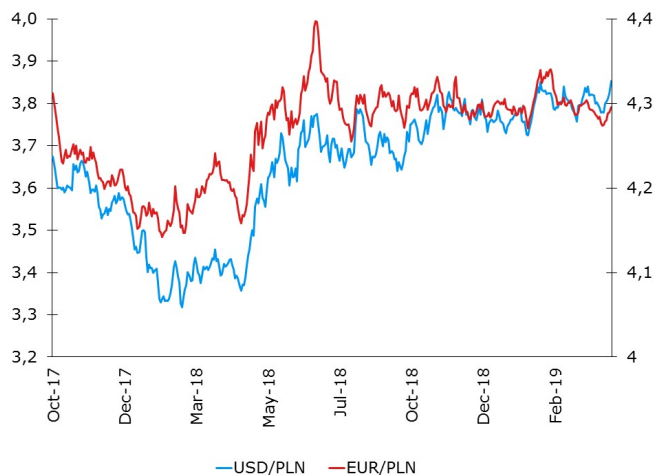


Spread 1Y vs 1M — 1Y — 1M

EUR/PLN volatility curve

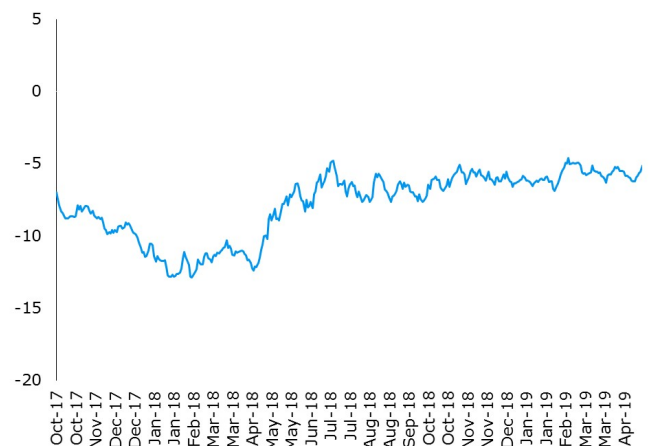


18 - 04 - 19 — 25 - 04 - 19



USD/PLN — EUR/PLN

Bias from the old parity (%)



Market prices update

Money market rates (mid close)							FRA rates (mid close)					
Date	FXSW 3M	WIBOR 3M	FXSW 6M	WIBOR 6M	FXSW 1Y	WIBOR 1Y	1x4	3x6	6x9	9x12	12x15	6x12
4/18/2019	1.76	1.72	1.83	1.69	1.91	1.77	1.72	1.72	1.73	1.75	1.77	1.81
4/21/2019	2.06	1.72	2.25	1.69	2.40	1.77	1.72	1.72	1.74	1.75	1.78	1.81
4/22/2019	2.06	1.72	2.25	1.69	2.40	1.77	1.72	1.72	1.74	1.75	1.78	1.81
4/23/2019	1.58	1.72	1.65	1.69	1.81	1.77	1.72	1.72	1.73	1.75	1.77	1.81
4/24/2019	1.68	1.72	1.75	1.69	1.88	1.77	1.72	1.73	1.73	1.75	1.78	1.80

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
32W TB	2/22/2017	8/30/2017	99.21	1.50	700	1832	726
OK0521	4/25/2019	5/25/2021	96.77	1.60	1000	1260	1010
PS0424	4/25/2019	4/25/2024	101.28	2.22	1800	2766	1896
DS1029	4/25/2019	10/25/2029	98.72	2.89	1000	1598	923

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
4/18/2019	1.770	1.520	1.820	1.705	2.067	2.220	2.410	2.889
4/21/2019	1.770	1.520	1.825	1.705	2.067	2.220	2.410	2.889
4/22/2019	1.770	1.520	1.825	1.705	2.067	2.220	2.410	2.889
4/23/2019	1.770	1.514	1.827	1.717	2.077	2.233	2.392	2.909
4/24/2019	1.770	1.524	1.821	1.717	2.065	2.226	2.415	2.896

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
4/18/2019	3.44	3.81	4.19	4.65	4.65	1.43	0.51
4/21/2019	3.43	3.83	4.18	4.65	4.65	1.43	0.51
4/22/2019	3.50	3.85	4.20	4.65	4.65	1.40	0.51
4/23/2019	3.47	3.80	4.15	4.63	4.63	1.43	0.51
4/24/2019	3.50	3.85	4.19	4.70	4.70	1.40	0.51

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
4/18/2019	4.2790	3.8002	3.7586	3.3968	1.3361	0.1666
4/21/2019	4.2802	3.8051	3.7557	3.4008	1.3376	0.1666
4/22/2019	4.2802	3.8051	3.7557	3.4008	1.3376	0.1666
4/23/2019	4.2886	3.8118	3.7427	3.4077	1.3369	0.1667
4/24/2019	4.2895	3.8229	3.7570	3.4189	1.3355	0.1666

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